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Nos. 86-495, 86-624 and 86-625

In the Supreme Court of the United States

OCTOBER TERM, 1987

K MART CORPORATION, PETITIONER

v.

CARTIER, INC., ET AL.

47TH STREET PHOTO, INC., PETITIONER

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

UNITED STATES OF AMERICA, ET AL., PETITIONERS

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF FOR THE FEDERAL PETITIONERS

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MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF

The federal petitioners move for leave to file, in advance of the reargument of this case on the merits, the supplemental brief that accompanies this motion. The brief responds to the supplemental brief filed by respondents on April 4, 1988.

Respectfully submitted.

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APRIL 1988

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SUPPLEMENTAL BRIEF FOR THE FEDERAL PETITIONERS

The three new cases[1] that are the stated occasion for COPIAT's supplemental brief do not alter the controlling legal principles here; they simply apply familiar rules of

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[1] *ETSI Pipeline Project* v. *Missouri*, No. 86-939 (Feb. 23, 1988); *NLRB* v. *United Food & Commercial Workers Union, Local 23,*

statutory construction to particular—and easily distinguishable—facts. And COPIAT's surrebuttal adds nothing of substance to its previous arguments. The question in this case remains whether the Treasury Department has reasonably interpreted Section 526, 19 U.S.C. 1526, to protect a U.S. trademark owner against importation of goods bearing its trademark that were manufactured abroad by a stranger (even if the stranger has the right to use that mark in the foreign country), but not against importation of its own (or its affiliate's or licensee's) goods into the United States after it itself has sold them into foreign commerce. As we have previously explained (U.S. Br. 10-14; U.S. Reply Br. 2-6), the Treasury Department's interpretation is consistent with the statutory language. And unlike COPIAT's construction, the Treasury interpretation is consistent with the basic principles of trademark law, Section 526's legislative history, and over half a century of regulatory practice.

1. "Trademark law, like contract law, confers private rights, which are themselves rights of exclusion. It grants the trademark owner a bundle of such rights, one of which is the right to enlist the Customs Service's aid to bar foreign-made goods bearing that trademark." *K mart Corp.* v. *Cartier, Inc.*, No. 86-495 (Mar. 7, 1988), slip op. 8 (*K mart I*). The Treasury regulation (19 C.F.R. 133.21) provides that the statutory right to enlist the Customs Service's aid extends to those cases where the trademark owner seeks to exclude infringing goods (even if they are genuine under the law of the country they come from), but *not* to situations where the trademark owner seeks to exclude goods that it itself (or its affiliate or licensee) had put

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No. 86-594 (Dec. 14, 1987); *Gwaltney of Smithfield, Ltd.* v. *Chesapeake Bay Found., Inc.*, No. 86-473 (Dec. 1, 1987).

into commerce. See 19 C.F.R. 133.21(c)(1). COPIAT, by contrast, argues that Section 526 entitles the trademark owner to enlist the Customs Service's aid to bar importation both of infringing goods and of its own products after it has sold them abroad.[2]

The Treasury regulation reflects a settled principle of domestic trademark law: a trademark owner has the right to prevent others from using his mark on *their* goods but does not have the right, merely by virtue of owning the mark, to limit the resale of his *own* goods once he has put them into commerce. *Champion Spark Plug Co.* v. *Sanders*, 331 U.S. 125, 128-130 (1947); *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 368-369 (1924); *NEC Elec.* v. *Cal Circuit Abco*, 810 F.2d 1506, 1509-1510 (9th Cir. 1987), cert. denied, No. 87-125 (Oct. 5, 1987). " 'A trade mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of *another's product as his*. . . . When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth.' " *Champion Spark Plug Co.*, 331 U.S. at 129 (quoting Justice Holmes' opinion in *Prestonettes, Inc.*, 264 U.S. at 368) (emphasis added). For example, Ford and General Motors can prevent an unrelated upstart automobile maker from attaching their trademarks to his cars, but they have no right under trademark law to prevent one of their own customers from reselling his "second-hand Ford or Chevrolet car" (*Champion Spark Plug Co.*, 331 U.S. at 129).

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[2] The paradigm case, which has been the focus of the Treasury Department's regulations since 1936 (Art. 518(b) (J.A. 27-28)), is the case where the *same* company owns both U.S. and foreign marks and is seeking to exclude its own foreign-made goods. The Treasury Department has modified its regulation over the years to embrace various "common-control" situations as well, but these modifications are simply extensions of the basic logic that applies in the "same company" case. See pp. 8-10, *infra*.

COPIAT reads *Champion Spark Plug Co.* and *Prestonettes* as "cases concern[ing] the proper scope of a trademark owner's *remedy* for what was found * * * to be a trademark infringement resulting from the resale of goods the trademark owner put into commerce" (Supp. Br. 6 (emphasis in original)). But in each case, the claim of infringement was that *modified* trademarked goods (reconditioned sparkplugs and reformulated face powder) were being sold in circumstances where they could be mistaken for the trademark owner's original product. The express premise was that the simple resale of a trademarked product, with no substantial modification, would not infringe the trademark.[3] COPIAT's suggestion (Supp. Br. 5-6) that simple resale can infringe the mark—and that the only question is one of appropriate remedy—is an extraordinary departure from both settled trademark law and the common understanding of everyone who has ever bought and later resold an item bearing a brand name. See 3A R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* § 21.13, at 62 (L. Altman 4th ed. 1983 & Supp. 1987).[4]

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[3] See *Champion Spark Plug Co.*, 331 U.S. at 129 ("we would not suppose that one could be enjoined from selling a car whose valves had been reground and whose piston rings had been replaced unless he removed the name Ford or Chevrolet"); *Prestonettes*, 264 U.S. at 369 ("If a man bought a barrel of a certain flour, or a demijohn of Old Crow whiskey, he certainly could sell the flour in smaller packages or in former days could have sold the whiskey in bottles, and tell what it was, if he stated that he did the dividing up or the bottling."); see also *Coty* v. *Prestonettes, Inc.*, 285 F. 501, 508 (2d Cir. 1922) ("There is no doubt, of course, that the defendant, after purchasing L'Origan face powders and perfumes from the complainant, was entitled to sell them in the original packages.").

[4] COPIAT concedes (Supp. Br. 6) *Callmann*'s statement that "resale or advertising for sale of the genuine plaintiff's article in its

The Treasury regulation interprets Section 526's trademark protection in light of the familiar trademark principle underlying *Champion Spark Plug Co.* and *Prestonettes*. As the Commissioner of Customs explained in 1951 (J.A. 53):

> [I]f the United States trade-mark owner and the owner of the foreign rights to the same mark are one and the same person, articles produced and sold abroad by the foreign owner may be imported by anyone for the reason that the trade-mark owner has himself introduced the articles into commerce or authorized such introduction and may not unreasonably restrict the use of the product thereafter. For this purpose a foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner.

To continue with the earlier example, General Motors can obtain the Customs Service's aid in excluding a "Chevrolet" made abroad by someone else (even if the stranger has

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original form, under plaintiff's trademark, affixed by plaintiff's authorization, is not trademark infringement" (3A R. Callmann, *supra*, § 21.13, at 62 (footnote omitted)). But COPIAT suggests (Supp. Br. 6) that the commentator takes a different view concerning transnational resales "at a different page" of his treatise. In fact, the commentator simply recognizes what this case demonstrates; namely that "different legal theories compete in this area" (3A R. Callmann, *supra*, § 21.17, at 75). The commentator goes on to explain that the theory that a trademark owner exhausts his rights upon sale supports the legitimacy of parallel imports "because a seller should not be able to control what he has already sold" (*id.* at 76). He further observes that the "principle of 'trade identity' suggests that the importer should always win because the ultimate source of the goods is the same, regardless of who owns the mark domestically" (*ibid.*). He also states that the "principle of 'territoriality' " would support the contrary view (*ibid.*), but as we explained in our reply brief (at 8), that principle does not go that far.

somehow acquired the right to use that name in the country of manufacture) but General Motors may not ask the Customs Service to bar overseas purchasers of General Motors' own Chevrolets from bringing their cars into the United States.[5] This interpretation of Section 526 does not, of course, mean that a manufacturer is powerless to control resales of its trademarked products: General Motors and Nikon are free if they wish to impose various contractual restrictions, or to put different labels on products they wish to aim at different markets. They simply are not entitled to the Customs Service's assistance in segmenting the international marketplace.

2. The context in which Section 526 was enacted also provides compelling support for the Treasury interpretation. As COPIAT concedes (p. 24), Section 526 was Congress's response to the Second Circuit's decision in *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (1921), rev'd, 260 U.S. 689 (1923). See U.S. Br. 14-25. The Second Circuit had held that an American company that had purchased a trademark and product distribution rights from an unrelated French manufacturer could not invoke its trademark to exclude the French manufacturer's goods, reasoning (275 F. at 543) that a trademark simply demonstrates "the origin of the goods they mark" and that since the imported goods truly came from the French manufacturer, the American trademark owner could not object to them. See U.S. Br. 15-16. This Court subsequently reversed that decision, holding that the imported

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[5] *Sturges* v. *Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931), which concerned an imported automobile, did not involve the issue now before the Court. The question there was whether the term "merchandise" applies to goods imported for personal use; it does not appear from the opinion that the U.S. and foreign trademark owners were the same or related persons. See *K mart I* Tr. Oral Arg. 32, 38.

product infringed the American company's trademark because that mark "indicates in law, and, it is found, by public understanding, that the goods come from [the American company] although not made by it" (260 U.S. at 692). But before this Court acted, Congress enacted Section 526 for the specific purpose "of protecting the property rights of American citizens who have purchased trademarks from foreigners" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)).[6]

The sponsors repeatedly emphasized during the ten-minute debate on this "midnight amendment" (62 Cong. Rec. 11602 (1922)) that this was the only purpose of this section. See U.S. Br. 17-25. Section 27 of the Trademark Act of 1905, ch. 592, 33 Stat. 730, already protected the U.S. trademark owner from any "simulation" of his mark. As Judge Learned Hand explained shortly thereafter, Section 526 "was intended only to supply the casus omissus, supposed to exist in section 27" as a result of the Second Circuit's *Katzel* decision—*i.e.*, to deal with the case of goods that bear trademarks that infringe in this country but are lawful in the country of origin. *Coty, Inc.* v. *Le Blume Import Co.*, 292 F. 264, 268-269 (S.D.N.Y. 1923). There is no evidence that Congress intended, nor any reason why Congress would have wanted, to break with existing trademark principles and require the Customs Service to assist foreign or American manufacturers in keeping their own goods out of the U.S. market. See U.S. Br. 17-25; U.S. Reply Br. 9-11.

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[6] In the *Katzel* case, the goods sold in this country by the U.S. trademark owner had in fact been manufactured by the same French company and sold to the U.S. trademark owner. That fact, however, has no significance: if the U.S. company, after purchasing the American trademark, had manufactured the face powder itself in this country and had sought (as in the *Katzel* case) to exclude the foreign

COPIAT has responded to the 1922 legislative debate primarily by evading it. In its previous brief, COPIAT suggested (Br. 28-29) that this Court should disbelieve the sponsors' comments on the limited scope of Section 526 because they actually had a hidden goal—one that cannot be detected from the legislative record—to achieve much broader aims. In its latest brief, COPIAT avoids the 1922 debate completely, and instead draws dubious inferences (Supp. Br. 4) from a 1929 debate concerning an amendment to Section 526 that was never enacted. The 1922 debate, which led to the enactment of the language at issue, is obviously the relevant source for determining congressional intent. And that debate indicates quite convincingly that Congress did not expect or intend that Section 526 would lead to the result that COPIAT now urges 66 years later. See U.S. Br. 17-25.

3. COPIAT's contention (Supp. Br. 9) that the Treasury Department's interpretation of Section 526 has been "inconsistent" and "belated" is both inaccurate and ironic. It is inaccurate because the Treasury Department has consistently maintained for over 50 years that a trademark owner cannot invoke Section 526 to exclude its own goods. The Treasury Department formally recognized this principle in 1936, through a regulation specifically providing that the Section 526 exclusion is not available if the foreign and U.S. trademarks "are owned by the same person, partnership, association, or corporation" (Art. 518(b) (J.A. 28)).[7] We are aware of no instance (and COPIAT has

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manufacturer's powder, the Second Circuit, this Court, and Congress would all, so far as appears, have reacted exactly as they did. See *K mart I* Tr. Oral Arg. 7-8.

[7] COPIAT argues that this regulation "related only to what is now Section 42 of the Lanham Act" (Supp. Br. 10 n.9). The regulation, however, specifically cited Section 526 (J.A. 27) and the Treasury

pointed to none), prior to the 1936 regulation, where the Treasury Department acted inconsistently with that principle. And since 1936, the Treasury Department has *always* followed that principle. The question on which Treasury's approach has varied is the extent to which affiliated or related companies are to be treated as the "same person" (U.S. Reply Br. 16 n.15). This is not a simple question, and in the past half century—which has witnessed dramatic changes in international trade and business practices[8]—the Treasury Department has made four changes in its regulation to adjust its approach to the treatment of multicorporate multinational enterprises (*ibid.*). These occasional changes in the precise definition of the boundary do not support COPIAT's contention that no boundary at all may be drawn between infringing goods and the trademark owner's own goods.[9]

Department has always maintained that the regulation was meant to implement Section 526. The Treasury Department's interpretation of its own regulation in these circumstances is, of course, controlling. *United States* v. *Larionoff*, 431 U.S. 864, 872 (1977). And if there were any doubts on this score, they were eliminated in § 11.14(a) and (b) of the 1943 revision (J.A. 39), which again cites Section 526, again adverts to the problem of trademarks that are genuine in a foreign country, and again denies protection in the "same company" situation. See also § 11.14 of the 1947 revision (J.A. 45-46).

[8] See, *e.g.*, Hadari, *The Structure of the Private Multinational Enterprise*, 71 Mich. L. Rev. 729, 733-743 (1973).

[9] COPIAT's reliance (Supp. Br. 11 & n.10) on the *Guerlain* litigation (*United States* v. *Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), vacated and remanded, 358 U.S. 915 (1958), dismissed, 172 F. Supp. 107 (S.D.N.Y. 1959)) continues to be misplaced. See U.S. Br. 39-40 n.48; U.S. Reply Br. 17 n.16. COPIAT cites the district court finding that Parfums Corday, Inc. (which was but one of the defendants in the case) closely controlled a French manufacturing affiliate and infers that the Customs Service must have intended to give that company the benefit of Section 526. As a customs law specialist ad-

COPIAT's characterization of the Treasury Department's interpretation as "belated" is ironic given the short history of its own interpretation. While the Treasury Department's basic interpretation has been in place for 50 years, and the very regulation at issue has been in place for 16 years, COPIAT's interpretation began with this lawsuit. Neither COPIAT nor its members participated in the 1972 rulemaking. See J.A. 75-76. Indeed, it is fair to say that COPIAT has pursued this suit precisely because it has been unable to achieve the result it seeks through legislation. U.S. Br. 5, 44-45. COPIAT's debatable and unproven policy arguments (Supp. Br. 7-9) provide no ground for jettisoning the Treasury Department's longstanding and reasonable interpretation of Section 526. This is particularly true given the substantial reliance interests that have been built upon this regulation. See U.S. Br. 4-5, 43-45; U.S. Reply Br. 18-19.[10]

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dressing *Guerlain* pointed out nineteen years ago, the Customs Service "had always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark. Prior to 1953, however, the Customs Regulations were not set up to specifically elicit this kind of information." Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs,* 59 Trademark Rep. 301, 307 (1969). Thus, the Customs Service would not have known of Parfums Corday's affiliate if that company had registered for Section 526 protection prior to 1953, or had otherwise failed to provide the agency with that information.

[10] COPIAT's claims of hardship to its members (Supp. Br. 8-9) are difficult to take seriously. For example, COPIAT despairs (*id.* at 8) that the Customs Service regulation has "victim[ized], in an especially vivid way" two of its members, Nikon, Inc. and E. Leitz, Inc. Prior to 1981, the foreign manufacturers of Nikon and Leica cameras selected these two companies as independent U.S. distributors for their products; accordingly, these U.S. companies could invoke the Section 526 exclusion. In 1981, however, the respective foreign manufacturers

4. The question here, at bottom, is whether the Treasury regulation is a "reasonable agency interpretation" of Section 526. *K mart Corp.* v. *Cartier, Inc.*, No. 86-495 (Mar. 7, 1988), slip op. 1. As we have previously explained (U.S. Br. 11-14; U.S. Reply Br. 2-4), the regulation is consistent with "plain language" principles. It applies the words of the statute quite straightforwardly to bar importation in the class of cases with which Congress was explicitly concerned but leaves unaffected a quite different class of cases that Treasury has determined, based on the legislative context, Congress did not intend to reach. This result is neither unfamiliar nor contrary to established principles of statutory construction; quite to the contrary, it focuses on what Congress meant by the words it used. This Court has frequently declined to interpret a statute as reaching every case its words might literally cover. The most recent example is *United States* v. *Wells Fargo Bank*, No. 86-1521 (Mar. 23, 1988), where the Court held that a 1937 law exempting certain project notes "from all taxation now or hereafter imposed by the United States" (42 U.S.C.

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acquired the companies and, in accordance with the Treasury Department regulation, the Customs Service terminated the distributors' right to the exclusion. Plainly, neither the manufacturers nor the distributors are entitled to much sympathy as a result of that consequence. The foreign manufacturers, who were certainly aware of the Treasury Department regulation, made a business decision to acquire their distributors, notwithstanding the distributors' loss of the Section 526 exemption. Furthermore, those manufacturers, who can control the worldwide distribution of their products, have ample means to protect their U.S. distributors from parallel imports—through, for example, labelling or stricter control over foreign distributors—if that were what they truly desired. Thus, if Nikon, Inc. and E. Leitz, Inc., are "victims" it is at the behest of their parents, with whom they share " 'a unity of purpose or a common design' " (*Copperweld Corp.* v. *Independence Tube Corp.*, 467 U.S. 752, 771 (1984) (citation omitted)).

1437i(b)) did not provide an exemption from federal estate taxation. There are numerous other examples.[11]

The Treasury Department's interpretation of Section 526 is consistent with the statutory language and, unlike COPIAT's interpretation, is consistent with settled principles of trademark law and the specific—and clearly enuciated—goals of its sponsors. These factors are as much a part of the legislative context, from which a court must determine what Congress meant by the words it used, as a conflicting statute (see *K mart I* Tr. Oral Arg. 9) or the historical understandings that motivated this Court's decision in *Wells Fargo Bank*. Treasury's sensible and longstanding interpretation, which has generated far-reaching commercial expectations for a broad class of retailers and consumers, is entitled to deference from this Court.

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[11] See, *e.g.*, *United States* v. *American Trucking Ass'ns*, 310 U.S. 534, 543 (1940) (term "employees" of motor carriers, as used in Motor Carrier Act, refers only to employees in safety-related jobs and not to all employees: "even when the plain meaning did not produce absurd results but merely an unreasonable one • • • this Court has followed [the legislative] purpose rather than the literal words"); *California Federal Savings & Loan Ass'n* v. *Guerra*, No. 85- 494 (Jan. 13, 1987) (holding that a statute providing that pregnant women "shall be treated the *same* [as other persons] for all employment-related purposes" (42 U.S.C. 2000e(k) (emphasis added)) does not forbid special leave and reinstatement allowances); *O'Connor* v. *United States*, No. 85-558 (Nov. 4, 1986) (holding that a treaty exempting Panama Canal Commission employees from "*any* taxes • • • on income received as a result of their work for the Commission" (slip op. 2 (emphasis added)) does not exempt them from U.S. income taxation); other examples cited at U.S. Br. 12; U.S. Reply Br. 3. Neither these examples nor the present case requires "inserting • • • words into the statute" (COPIAT Supp. Br. 3); Treasury sought merely to give the words that are there the meaning they were intended to have. It is no more difficult to read the statutory phrase "bears a trademark" as referring, in context, to a mark not affixed by the very person that now seeks to exclude the goods, than to read any "no entry" provision as implictly excepting authorized persons.

For the foregoing reasons, and the reasons set forth in our previous briefs, the judgment of the court of appeals should be reversed.

Respectfully submitted.

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APRIL 1988

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